

VZCZCXRO6355  
RR RUEHCHI  
DE RUEHBK #4880/01 2220323  
ZNR UUUUU ZZH  
R 100323Z AUG 06  
FM AMEMBASSY BANGKOK  
TO RUEHC/SECSTATE WASHDC 0832  
INFO RUEHCHI/AMCONSUL CHIANG MAI 2269

UNCLAS SECTION 01 OF 03 BANGKOK 004880

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E.O. 12958, AS AMENDED: N/A

TAGS: [EINV](#) [ECON](#) [TH](#)

SUBJECT: CHINESE INVESTMENT STRATEGIES: FAIR OR FOUL PLAY?

¶1. Summary: In its efforts to manage globalization and competition, Thailand has welcomed Chinese trade and investment. China in turn has responded with well-connected companies utilizing government incentives to invest. Both countries extend attractive policy measures to encourage this trend. Chinese multinational companies find attractive Thailand's mature domestic market, similarities in culture and - until recently - stable political environment, which local observers believe primes it as a major outlet to reduce China's rapidly expanding trade surpluses and foreign exchange reserves. However, while some in Thailand welcome China as just another source of investment to raise overall market competitiveness, others fear that Chinese companies may possess unfair advantages from being closely aligned with the PRC government. Spurred by Beijing's 'Go Abroad' policy, large Chinese state-owned enterprises can count on their government-sanctioned financial support. End summary.

¶2. In recent years Thailand has aggressively targeted China as a trading partner and as a growing source of foreign investment, although local Thai observers do not see any favoritism on the part of the RTG. Mr. Charas Chitkittichamras, head of the China desk at Thailand's Board of Investment, considered the increased attention towards China a necessary and balanced response commensurate to China's economic clout. Furthermore, Dr. Deunden Nikomborirak, research director at the Thailand Development Research Institute, viewed China only as one among many participants in Thailand. She emphasized the benefits of greater competition among all foreign and Thai companies towards increased efficiency and lower prices.

¶3. Both countries actively promote this development. For instance, Thailand's Board of Investment (BoI) has created a special China desk to facilitate mutual FDI. Moreover, rather than relying solely upon agreements with Beijing, the BoI has targeted individually 11 southern Chinese provinces for direct cooperation in the private sector. This initiative includes the establishment of a Thailand-China Business Council in each of those selected provinces.

Concomitantly, China has restructured its Thailand embassy to encourage Chinese investment. According to Ms. Hu Yan, a Chinese businesswoman with close connections inside the Chinese embassy in Bangkok, China's diplomatic corps only engaged in political or consular activities until the 1990s. In the last 10 years, however, the Chinese Ministry of Commerce has increased its presence in Thailand. Aside from supplying some basic informational and legal support, it created the Chinese-Thai Enterprises Association in 2002 as the official grouping of Chinese companies. Hu noted these measures correspond to Beijing's overall engagement with ASEAN countries, where Thailand is the largest destination for Chinese investments. For example, she noted the 3rd China-ASEAN expo later this October in the Chinese city Nanning, to which she claimed responsibilities for handling Thai delegates' travel arrangements.

Chinese investors praise Thailand

¶4. Chinese investors interviewed by Econoff unanimously agreed that Thailand is particularly well-suited for Chinese companies. Along with a more mature domestic market, they felt Thailand offers better production sourcing and infrastructure than most other Southeast

Asian nations. Ms. Jian Jun of textile and chemical manufacturer China Worldbest Group, a Shanghai-based SOE, also mentioned Thailand's advantages as a base for greater access to export markets. Finally, the large ethnic Chinese community often acts as a springboard into the market. According to Mr. Milton Osbourne at the Lowry Institute in Australia, at least 60 percent of Thai parliamentary MPs have Chinese ancestry, with some estimates upwards of 90 percent. "We like Thailand because the Thais are unbelievably friendly and kind, probably because of their Buddhist beliefs," added Mr. Wang Yinfei, managing director of China State Construction Engineering company.

15. Notwithstanding Thailand's current political uncertainties, all the Chinese investors interviewed considered the country as generally stable, with mostly consistent economic policies. No one denied that the current conditions have caused short-term difficulties to their business. For example, Chinese businesswoman Hu revealed that the Chinese premier was originally scheduled to arrive earlier in April this year to announce upwards of USD 5 billion dollars in loans to the Thai government, but canceled the trip due to the political protests at the time. Chinese companies would in turn receive much of these loans to invest in Thailand. Not surprisingly, all said they would like to see a continuation of caretaker PM Thaksin's government, but maintain confidence that any administration would continue liberal trade and investment policies.

Chinese SOEs to China: Show me the money!

16. These conditions have also made Thailand an ideal destination for China's 'Go Abroad' (Zou Chuqu) investment strategy, which Chinese businessmen say offers incentives for Chinese state-owned enterprises (SOEs) to invest in other countries. Mr. Xu Genluo,

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general manager at Hangzhou-based Holley Group, explained the five priorities of this policy: 1) Relieve the pressures to revalue the Chinese currency; 2) Avoid certain export restrictions on Chinese products; 3) Reduce China's trade imbalance with other countries by diverting manufacturing; 4) Gain global management and technological skills; and 5) Diversify company investments.

17. The 'Go Abroad' policy thus coordinates significant Chinese government involvement in financially supporting its outbound SOEs. Xu stated that his own company derives significant direction and financial support from the government, including a direct grant for a \$100 million dollar electric meter factory in Thailand. Xu did not specify the source of the grant, only stating that they were given to ten specially selected Chinese companies. Jian also spoke of regular consultations and business ceremonies held within the Chinese embassy compound. (Note: During interviews with Econoff, Chinese businesspersons all either appeared to have just come from or prepared to depart for meetings there. It is possible the Chinese embassy either wanted to ensure adherence to certain talking points or to discover the substance of the interviews. End note.) In addition, Hu recollected that some of her friends in Chinese banks were mandated by their government to approve a certain number of loans for outbound investments each year. She asserted some of those loans offered "virtually no interest" for borrowers, adding that Chinese SOEs are also exempt from corporate taxes on their overseas earnings.

Getting too much help from China?

18. Further blurring the distinction between Chinese businesses and government, Hu also emphasized that only Chinese SOEs are afforded those policy incentives. In contrast, privately-owned Chinese companies are generally prohibited from going abroad. Officially, only SOEs are allowed into the 69-member Chinese-Thai Enterprise Association. There are only two exceptions, including Hu's small tourism and air shipping company. She said the Chinese Ministry of Commerce only allowed her company to bypass those rules because of her extensive personal relationships with the Chinese embassy in Bangkok.

¶9. In addition to reducing its foreign reserves and trade imbalances, Chinese investment policies can help its SOEs gain advantages over its private competitors in Thailand. For example, Charas of Thailand's BoI suspected that the Chinese government financially underwrites low bids to gain access to the Thai market. He considered this policy to be an extension of Chinese soft power policies. Nonetheless, Charas did not consider these measures financially large enough to significantly undermine genuine competition, especially since most Chinese companies are still minor players in Thailand.

¶10. However, Jian of China Worldbest Group, a Shanghai-based SOE, portrayed a far more distant relationship between Chinese businesses and government. Acting also as president of the Chinese-Thai Enterprise Association, she asserted that Worldbest received no money from the Chinese government, dismissing the notion as an inefficient allocation of public funds. She reiterated Chinese government statements that China has allowed the market to completely determine a company's viability. For Jian, even the concept of SOEs being 'state-owned' belies the reality that companies are now publicly owned, with the government as only one shareholder. She theorized the dominance of Chinese SOE investors as a natural result of China's relatively nascent entrance into a market economy, as larger companies with resources to invest overseas tend to have SOE origins.

¶11. Jian also defends against the notion that China is too reckless with its outbound FDI. For instance, she gave evidence of market-driven investment decisions, noting their careful risk assessment since 1998 before opening manufacturing facilities in Thailand in 2001. She explained that Worldbest wanted to have better access to the local market and export position, but also stressed the high quality of Thai talent in assisting their research and development.

¶12. Charas agreed with most of Jian's market-based rationale. He noted that most of the Chinese companies have been profitable, apart from some minor investors in products and retail services. Aside from telecommunications, most of the larger investments and service trade in construction have moved into Thailand cautiously. Those Chinese companies that have failed suffered from a limited understanding of Thai tastes, rather than self-inflicted wounds to placate Beijing's foreign policy mandates. For instance, Charas imparted one anecdote on ceramics from Jingdezhen, China's most famous town for such wares. Chinese investors failed to realize Thai buyer's appreciation for professional presentation and often displayed otherwise quality wares amassed on the ground. This alienated Thai clients seeking ceramics for both small- and large-scale home improvement projects.

¶13. Comment: Thus far it appears Thai observers considered the advantages of Chinese investment outweigh any potential fairness

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issues. While they understand that Chinese companies have close relationships with the PRC government, none of the interlocutors has indicated that China has used its increasing investments for political leverage. Even Chinese investors like Hu and Xu were candid regarding their own business-government intimacy, appearing not to find such support unfair. With China's GDP rising 10.3 percent and 11.3 percent in the first and second quarters of 2006, expect China to increase its direct incentives to motivate its SOEs to 'Go Abroad', especially as China is eager to avoid the various economic pressures caused by its ascendant economy. End Comment.

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